

# *Fiscal Year Return Projections for the United States: 2003 - 2010*

*Document 6292  
Fall 2003 Update*



Department of the Treasury  
Internal Revenue Service

[www.irs.gov](http://www.irs.gov)

Document 6292 (Rev. 11-03)  
Catalog Number 45056C

*Office of Research  
Research, Analysis and Statistics*

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Suggested Citation

Internal Revenue Service  
Research, Analysis and Statistics  
Office of Research  
Fiscal Year Return Projections for the United States:  
2003 – 2010  
Document 6292 (Rev. 11-03)  
Washington, D.C. 20224

**Document 6292 (revised 11-2003) is produced by the IRS Office of Research, within the Research, Analysis and Statistics organization.**

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**Forecasts Available Electronically**

The following forecasts are also available on the IRS's web site. This site can be reached at **[www.irs.gov](http://www.irs.gov)**. Select the "Tax Stats" option, and then the "Projections" option (under the *Statistical Publications* heading). IRS employees can also access this projections product on the IRWeb intranet site by selecting the "NHQ" option (under the *Major Organizations* section); followed by the "Research, Analysis and Statistics" option; the "Office of Research" option; and then the "Projections and Forecasting Publications" option.

**Distribution**

If you are an IRS employee and would like to receive a printed copy of this document on a continuous basis, please contact your local IMDDS coordinator and obtain the appropriate protocol for inclusion on the distribution list. All non-IRS customers, and IRS customers uncertain of their local IMDDS coordinator, should contact Philip Cormany on (202) 874-0514.

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## **Overview**

This Fall 2003 edition of Document 6292 presents U.S. level projections of returns to be filed with IRS by major form type for fiscal year (FY) 2003 through 2010. These projections provide a foundation for IRS workload estimates and resource requirements contained in budget submissions to the Department of the Treasury, Office of Management and Budget, and the Congress. Office of Research staff within the IRS Research, Analysis and Statistics organization develop and update these forecasts semiannually to reflect the changes in filing patterns, statutory requirements, and administrative procedures. The updates also incorporate the current economic and demographic outlook. Forecasts of economic and demographic data series used by Research staff to prepare some of these return projections are provided by Global Insight. Enacted tax law changes and confirmed administrative plans are reflected in these return projections. However, legislative or administrative initiatives simply under consideration generally are not used to update these return projections because of the uncertainty of their eventual outcome. The projections in this document are based on information available as of mid-summer 2003.

## **Data Sources and Projection Methodology**

The reported actual volumes of returns filed in FY 2002 by form type are based mainly on filings as recorded on the IRS master files. With a few exceptions, these volumes are the same as those reported in the Internal Revenue Service Data Book (Publication 55B) for that processing year. One major exception involves some newly forecasted forms such as those under the "Government Entity/Bonds" category, wherein historical data were provided by program staff under IRS' Tax Exempt/Government Entities Division. Also, the distribution of returns by operating division was estimated by Research staff to adjust for known shortcomings in the raw master file tallies.

The forecasts presented in Document 6292 are based on statistical models that relate the number of returns filed in a calendar year to economic and demographic variables, or to observed time trends. Examples of key economic variables used in some of the forecasting models include personal income and civilian employment. The fiscal year projections then are derived from the calendar year forecasts based on the quarterly filing experience of one or more historical years.

## **Summary of Significant Trends and Revisions**

A summary of the major trends and significant revisions from the projections developed in the prior Fall 2002 update of this publication are noted below.

### *Changes in the Table Formats*

The format of the main projection table has changed significantly from those presented in the Fall 2002 update of IRS Document 6292. In particular, Table 1, *Fiscal Year Projections of the Number of Returns to be Filed with IRS*, now reflects whole numbers (rounded to hundreds), instead of volumes in thousands. It also includes more explicit labeling of return categories and finer breakouts by form type within the major groupings for Individual,

Corporation, Employment, Exempt Organization and Excise tax returns. In addition, the previous categorization of total Exempt Organization returns used last year has now been segmented into more appropriately labeled groupings based on customer feedback.

As presented in Table 1, the category “Exempt Organization” (EO) now includes only the following returns: Forms 990, 990EZ, 990C, 990PF, 990T, 4720, and 5227—reverting back to the definition for EO returns traditionally used in Document 6292 until last year. In addition, the grouping “Government Entities/Bonds” has now been added and includes Forms 8038, 8038G, 8038GC, 8038T, and 8328. The category “Political Organizations” has also been added and includes Forms 1120POL, 8871, and 8872. (Note that in prior years, Form 1120POL was included in the subtotal for “Corporation.”) Furthermore, since the data are now presented in whole numbers and with finer detail by form type, we could eliminate “Table 4” (*Detail on Return Projections Relating to Exempt Organizations*) which was contained in the prior edition of Document 6292.

In the interest of further streamlining Document 6292, we also have eliminated the analytical table comparing our current set of forecasts to those from the prior projection cycle—as was presented in previous editions of this publication. The introduction of new forms being projected this forecast cycle (as discussed below) make such a comparison table problematic from a consistency standpoint. In addition, as a result of eliminating some tables, our estimates of major return types by the IRS operating division demarcations are now presented in Table 2.

#### *Additional Form Types Being Projected*

In response to customer requests, projections of several additional form types have now been included with this revision to the Document 6292 forecasts. These additional forms being projected include: Form 2553, “Election by a Small Business Corporation”; Form 1066, “U.S Real Estate Mortgage Investment Conduit Income Tax Return”; and Form 8868, “Application for Extension of Time to File an Exempt Organization Return”. Form 8868 is incorporated under “Supplemental Documents” subtotal, while the other two are listed separately.

#### *Changes in Estate Tax*

The Economic Growth and Tax Relief Reconciliation Act of 2001 has significant impact on estate tax law. The tax relief act reduces estate tax liability by raising the allowable exempt amount of taxable estates and by lowering the maximum tax rate for calendar years 2002 through 2009. Under current law, the estate tax will be repealed in 2010, only. In 2011, the estate tax law will then revert to the law in place before June 7, 2001. The effects of this new tax law account for the projected downward trend in estate tax return filings.

#### *Cessation of IRS Processing of Employee Plans Returns*

In July 2001, the Internal Revenue Service ceased processing any Employee Plans (EP) returns. That responsibility now resides solely with the Department of Labor. Therefore, there are no EP volumes presented in Table 1. However, staff with IRS Tax Exempt/ Government Entities (TE/GE) Division still need projected volumes for total EP returns filed

for other resource planning purposes. Hence projections for EP returns are presented in Table 2, *Selected Fiscal Year Return Filing Estimates by Business Operating Division*.

#### *Detail by Business Operating Division*

Table 2 presents estimates of selected return filings by IRS's "business operating division" (BOD) organizational structure. The selected returns include total individual income tax returns, total corporation income tax returns, partnership returns, total employment returns, exempt organization returns (per the new EO grouping convention this projection cycle which excludes "Government Entities" and "Political Organizations"), and total excise returns. Where applicable these volumes are broken out by their "Wage and Investment" (W&I), "Small Business/Self Employed" (SB/SE), "Large and Mid-Sized Business" (LMSB) and "Tax Exempt/Government Entities" (TE/GE) operating division components. Also included are projected total filings of employee plans (EP) returns (processed by the Department of Labor) which comprise major return filings by taxpayers served by the (TE/GE) operating division. For fiscal year 2002 and beyond, the definition of LMSB essentially reflects corporation and partnerships with \$10 million or more in assets.

#### *New Forms Impact Grand Total, Primary Total and Supplemental Documents Volumes*

Three return types being forecasted by Research staff for the first time, i.e., Forms 2553, 1066, and 8868 will impact the reported total and subtotals—relative to prior editions of Document 6292. Forms 2553 and 1066 will add to the count of "Primary Returns" in Table 1. Form 8868 will add to the count of "Supplemental Documents." And all three return types will add to the count for "Grand Total." Customers should keep this in mind when making any historical comparisons to past-published data series.

#### *Unique Drops in Filings for FY 2003*

In what is a rare development, available data for the current fiscal year indicate that return filing volumes in FY 2003 will be lower than those for 2002—for several major (high volume) return categories. The most notably of these are the individual income tax returns and the individual estimated tax payments. Yearly declines in these individual return categories, in turn, largely account for the associated drops in Total Primary and Grand Total for 2003 relative to 2002. Such year-to-year declines in filing volumes have only occurred a few times over the past three decades. We attribute this most recent occurrence to two factors, filing extensions to military personnel overseas, and the U.S. economy.

Data indicate that total individual income tax returns received in 2003 will be about 300,000 returns less than the number received in 2002. We believe that the special filing extension granted to our military forces in the Persian Gulf and related war zones is contributing somewhat to fewer tax returns filed this year. However, the main cause we attribute to the expected drop in individual tax return filings in 2003 is the noticeable drop in employment measured for both 2001 and 2002. In effect, less people employed mean fewer people required to file tax returns. And the related fall-out effects from the recent recession and "sluggish" recovery are also the likely reason for individuals needing to make fewer estimated tax payments. However, with expectations for stronger economic growth in the future, also come our projections for future growth in return filings.

## **Projections and Forecasting Performance Measurement**

In an ongoing effort to provide Projections and Forecasting Group customers a measurement of the quality of our products and services, we present updated versions of our “Track Record” and “Customer Satisfaction Survey” results. The track record provides statistical measures of our forecasting accuracy, while the survey results present qualitative information on the level of satisfaction internal IRS customer find in our products and services. Our intention is to include this feedback on our performance in all of our major tax return projection publications, and to act upon these results to make further improvements in our services.

### *Track Record of Projections Accuracy*

This “track record” section, along with Table 3, provide a brief analysis of the accuracy of prior projections prepared by the Projections and Forecasting staff within the Office of Research. Using four years of actual data for 1999 through 2002, Table 3 presents the accuracy of our national level projections, by major return categories, as presented in our various documents published from 1994 to 2001. For manageability purposes, this track record material covers only the major return categories we forecast on a calendar year basis. It serves as a general measure for gauging the overall reliability of our U.S. level return projections.

The return categories considered in Table 3 consist of the following: Grand Total, Total Primary Returns, Individual (income tax) Total, Individual Estimated Tax, Fiduciary, Partnership, Corporation, Employment, Exempt Organization, and Excise. Where there were sufficient data on prior forecasts, we have also included selected breakouts of “paper” volumes versus “e-file/magnetic tape” filings. The table presents two measures of projection accuracy: the mean absolute percent error (MAPE), and the number of overprojections. We also include the latest actual filing volumes for 2002 to provide perspective on the relative size of the “numbers” being projected. The MAPE is computed as the average percent projection error (regardless of whether they were over- or under-projections) over the four most recently applicable projection cycles. The associated number of overprojections for the four cycles can show whether we consistently over- or under- project. Since we do not want to do either, a value of two (2) is most desirable. The table groups these two measures by time horizon. The time horizon is determined by when the forecast was made and for what future year. For example, a forecast for 2000 made in 1997 would be part of the “3-years-ahead” time horizon. The table presents time horizons from one to five years ahead. For each, we factor in the most current four observations. So, for example, for the “3-years-ahead” information, we use the forecasts made in 1996 for 1999, those made in 1997 for 2000, those made in 1998 for 2001, and those made in 1999 for 2002.



### *Customer Satisfaction Survey and Comments*

In January 2003, as part of our commitment to performance measurement, the Projections and Forecasting Group conducted our fourth annual survey of IRS customers to determine satisfaction levels with our products and services. The table below summarizes the results of those surveys on four major dimensions.

<i>PFG Customer Satisfaction Survey Results: Percent "Satisfied" or "Very Satisfied"</i>				
<u>Measure</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Accuracy of Forecasts	81	83	84	80
Timeliness	75	73	80	89
Responsiveness of PFG Staff	67	64	72	74
Overall Satisfaction	85	87	85	91

We thank customers who have participated in our past surveys and ask for your continued cooperation in future iterations. Also, we continually seek to improve customer service wherever we can and we welcome customer feedback at any time. Comments and suggestions regarding this document can be directed to Wanda Ross Acting Chief, Projections and Forecasting Group on (202) 874-0838. Questions concerning a specific tax return listed in this document may also be directed to the projections staff listed on the inside front cover. Finally, the tables contained in this document are also available electronically, as noted on the inside front cover.

Eric Toder  
Director, Office of Research

## Table Notes

Detail may not add due to rounding.

Most projections are based on counts of returns filed as recorded in the *Reports of Returns Posted to the IRS Master Files*, with a few exceptions. The historical 2002 count of Form 1040X reflects some estimation by Research staff to correct for known shortcomings in the official Master File reports that result in some undercounting of this return type. Also the distribution of returns by operating division was estimated by Research staff to adjust for known shortcomings in the raw master file tallies. In addition, data for the following forms were provided by the customers: 2553, 8038, 8038G, 8038GC, 8038T, 8328, 8871, 8872, 5558, and 8868.

Notes below are ordered as they appear in the tables.

### Table 1

“Grand Total” is the sum of “Total Primary Returns” and “Supplemental Documents.”

“Total Primary Returns” is the sum of all returns, excluding “Supplemental Documents.”

“Individual Income Tax, Total” is the sum of paper and electronic Forms 1040, 1040A, 1040EZ, 1040NR, 1040PR, and 1040SS.

“Forms 1040, 1040A, and 1040EZ” is the sum of the paper and electronic Forms 1040, 1040A, and 1040EZ.

“Fiduciary” returns include both paper and electronic Form 1041.

“Partnership” includes both paper and electronic Form 1065, and Form 1065-B.

“Corporation Income Tax, Total” includes Forms 1120, 1120A, 1120F, 1120H, 1120L, 1120PC, 1120SF, 1120FSC, 1120REIT, 1120RIC, and 1120S. As a result of enacted legislation, no Form 1120FSC returns are expected after FY 2004.

“Form 2553” is the *Election by a Small Business corporation*.

“Form 1066” is the *U.S. Real Estate Mortgage Investment Conduit (REMIT) Income Tax Return*.

“Estate” includes Forms 706, 706NA, 706GS(D), and 706GS(T).

“Form 709” is the *United States Gift (and Generation-Skipping Transfer) Tax Return*.

“Employment Tax” includes paper, magnetic tape and electronic Forms 940, 940EZ, 940PR, 941, 941PR, 941SS, 943, 943PR, 943SS, 945, and CT-1.

“Form 1042” is the *Annual Withholding Tax Return for U.S. Source Income of Foreign Persons*. It is sometimes considered an employment tax return, but listed separately here.

“Exempt Organization” includes Forms 990, 990EZ, 990C, 990PF, 990T, 4720, and 5227.

“Government Entities /Bonds” includes Forms 8038, 8038G, 8038GC, 8038T and 8328.

“Political Organizations” includes Forms 1120POL, 8871 and 8872. In prior years, Form 1120POL was grouped under “Corporations.”

“Excise, Total” includes Forms 11-C, 720, 730, and 2290.

“Form 5330” is the *Return of Excise Taxes Related to Employee Benefit Plans*.

“Form 8752” is the *Required Payment or Refund Under Section 7519*.

“Supplemental Documents” consist mainly of applications for extensions of time to file and amended tax returns, which include Forms 1040X, 4868, 2688, 1120X, 5558, 7004, and 8868.

#### *Table 2*

Individual filers classified as “Small Business/Self Employed” reflect those with a Schedule C, Schedule F, Schedule E and/or Form 2106 attached, or with mailing addresses or forms considered “International”. All other individual filers are classified as “Wage and Investment.”

In general, corporation filers (Form 1120 series returns including Form 1120S) and partnership filers are classified as “Large and Mid-Sized Business” if their reported total assets are \$10 million or more. Corporation and partnership returns with assets below \$10 million are generally classified as “Small Business/Self Employed.” However, there are also some partnership and corporation returns classified as part of the “Tax Exempt/Government Entities” operating division.

Non-profit organizations, pension plan filers, tribal authorities, and governmental units comprise the “Tax Exempt/Government Entities” classification. Note also that “Exempt Organization Returns” includes a breakout for LMSB, i.e. for the Form 990C, which is considered an LMSB return and not a TE/GE return.

“Employee Plans” include paper and electronic Forms 5500, 5500EZ, and 5500C/R. IRS ceased processing Employee Plans returns in July 2001.

## Other Projection Documents

Title	IRS Document Number	Typical Updates
<b><i>Calendar Year Return Projections by State and Selected Locations</i></b>	6149	Winter
<b><i>Calendar Year Return Projections for the United States and IRS Centers</i></b>	6186	Fall
<b><i>Calendar Year Projections of Individual Returns by Major Processing Categories</i></b>	6187	Fall
<b><i>Calendar Year Projections of Information and Withholding Documents for the United States and IRS Centers</i></b>	6961	Spring

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These documents are available electronically as noted inside the front cover.

These documents may also be requested

- (1) by phone at (202) 874-0514,
- (2) by fax at (202) 874-0613, or
- (3) by writing to the following address

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